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SUBJECT: Engaging Russia on Climate Change - Untapped Opportunities

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SUMMARY

¶1. In response to State, USAID, and DOE discussions over the future direction of the Global Climate Change (GCC) and Clean Energy Initiative programs in the Europe and Eurasia region, Post's Assistance Coordination Working Group has reviewed potential approaches to engage Russia. As the country with the third largest emissions of CO2 from fossil fuels, the world's largest forest resources, the largest natural gas reserves, and one of the least efficient energy production and consumption systems, Russia can make a substantial contribution to addressing GCC. However, it faces technological shortcomings and political obstacles stemming from the country's continued economic dependence on hydrocarbon exports. Post proposes exploring targeted engagement with Russia on (1) clean energy, including energy efficiency, (2) sustainable management of forests and affected ecosystems, and (3) policy coordination and science cooperation. Progress on GCC issues would benefit from a renewed bilateral cooperation structure that provides high-level political blessing and regular review of progress. With modest resources the USG could help shape Russia's response to GCC and expand channels of cooperation. Post welcomes Washington recommendations and further discussions on how best to engage Russia on GCC. END SUMMARY.

Why Engage Russia on Global Climate Change?

¶2. RESOURCES: Russia is the world's second largest oil producer after Saudi Arabia. Following the collapse of the Soviet Union, Russia's oil output fell sharply, but rebounded significantly in the

early 2000s. Oil production dropped in 2008 for the first time in a decade and is forecast to drop again in 2009. Russia has the largest natural gas reserves in the world and is the largest natural gas exporter. Until the recent financial crisis, rising electricity consumption had increased natural gas consumption. Russia has the second largest amount of recoverable coal reserves in the world, and the Russian Energy Ministry is optimistic about future growth in coal use. Since Russian coal is predominantly dirty, burning it at power stations greatly contributes to CO2 emissions. Introduction of clean coal technologies is vitally important as coal continues to play a key role in the Russian energy mix. Russia's forest resources, which cover 22 percent of the world's forested areas, also represent one of the world's largest potential carbon sinks, if managed and measured appropriately. These resources make Russia a huge factor in the GCC equation and also grant the country some financial capabilities that can be focused, especially given the country's scientific capacity, to address the challenge.

¶3. ENERGY INEFFICIENCY: Russia is one of the least efficient users of energy in the world, due in part to its inherited Soviet-era capital stock and system of continued government subsidies. A September 2008 World Bank study grabbed headlines with its findings that Russia can save 45 percent of its total primary energy consumption, and that Russia's current energy inefficiency is equal to the annual primary energy consumption of France. Given this situation, the GOR recognizes it can benefit from relatively cheap efficiency gains. Currently, natural gas prices are kept at low, regulated levels. In 2007, the Russian government instituted a plan to transition industrial consumers to market prices for gas by 2011, in hopes of encouraging energy efficiency. President Medvedev has rolled out several green initiatives, including hosting a June 2008 conference to discuss sustainable environment and energy efficiency and signing a decree in June 2008 calling for new laws to create energy-efficient technologies and setting a goal of increasing the country's energy efficiency by 40% by 2020 (ref C). Unfortunately,

we understand that the economic crisis has derailed many of these plans. The government has continued to increase natural gas prices despite the economic crisis, but the deadline for market pricing is once again up for debate, and may be delayed even as the market price continues to drop closer to the subsidized price.

¶4. A major portion of Russia's greenhouse gas emissions comes from flaring of natural gas by Russian oil companies. These companies are forced to flare due to Gazprom's refusal to allow them access to the natural gas transport system. Estimates of gas flaring range from 390 Bcf (RosStat) to 2,400 Bcf (US National Oceanic and Atmospheric Organization), or 11-70 Bcm; roughly 25% of production. The government of Russia has called on oil companies to reduce their gas flaring by 95% and GazpQm to allow oil companies access to its pipeline network so that associated gas from oil wells could be captured and sold, rather than being burned away. However, government-owned Gazprom has thus far refused to comply.

¶5. RUSSIAN POSITIVE MOTIVATION: Russia will be one of the first and greatest victims of climate change and is now in a position to be motivated to tackle GCC. A November 2008 report from Russia's lead scientific agency on climate change issues, the Federal Service for Hydro-meteorology and Environmental Monitoring (Roshydromet) (ref A), warns that GCC will have a disproportionate effect on Russia because of its geographic position. A rise in Arctic temperatures will endanger infrastructure that is built on permafrost. The water supply in the south, critical to agricultural production, will suffer due to changes in rainfall patterns. Climate trends could increase the spread of certain vector-borne diseases, negatively affecting human health. Droughts could increase the risk of forest fires in some regions, and other parts of the country could see significant increases in flooding along rivers.

¶6. Another potential motivator for Russia is cracking down on lost tax revenue from illegal logging, which would indirectly help GCC by preserving more of Russia's forests. Russia is a particularly large source of illegally harvested timber, much of which is then illegally exported into China, eventually making it into the United States and other developed countries in the form of finished wood

products. Russia's forests act as a carbon sink and thus directly affect global climate.

¶7. OBSTACLES: Russia's economic dependence on the export of fossil fuels and the entrenched interests of Russia's fossil fuel industries are among the greatest obstacles preventing Russia from embracing efforts to combat climate change. In many cases, internal political deadlocks have prevented Russia from making progress on its most important GCC problems. For example, efforts to tackle Russia's greenhouse gas emissions must involve the country's largest methane emitter and its largest corporation, Gazprom. The gas monopoly has cooperated with EPA, though only on a small scale, to share best practices on reducing methane emissions, and cooperation could be expanded. But making a significant dent in emissions from natural gas flaring will require sustained political will and internal efforts on the part of Russia's federal government.

¶8. Significant constituencies in Russia's scientific and policy communities still dispute the evidence of climate change, while others argue that Russia will actually benefit from warming trends. However, Dr. Yuriy Izrael, from 2002 to 2008 a vice-chairman of the Intergovernmental Panel on Climate Change (IPCC) and one of the lead authors of the Roshydromet report on climate change, told us in a December 2008 meeting that the evidence of climate change is clear, and that a high degree of confidence exists that human activity has been its primary cause since the mid-20th century. That scientific certainty, however, has not yet made its way to all parts of the Russian government structure and populace.

Three Opportunities for Technical Cooperation

¶I. Improve Energy Efficiency in Domestic Operations and the Energy Supply System:

¶9. Clean energy and energy efficiency are of keen interest to a range of Russian local, regional, and national institutions and are areas where the USG has programmed on a small scale in the past with good success. USG implementing partners have established relationships with a range of national, regional, and local entities on energy-related issues. With appropriate technical assistance, these organizations could serve as a basis for advancing a number of USG policy, technological, and resource management issues in Russia. As one example, regional and municipal governments have been active participants in USAID's Community Development Support Program (CDSP) which encourages improvement of local resource management through energy efficiency projects.

¶10. There are several areas where the USG could increase efforts, contingent upon additional resources:

a) Encourage the development of energy-efficiency policies in cooperation with local governments and the Ministry of Regional Development.

b) Encourage strengthening of energy-efficient building standards. Commercial, residential, and public buildings account for more than 50% of the country's total energy usage. Russia's progressive efficiency standards will also need to be reauthorized soon in order to remain in force beyond 2010.

c) Encourage new legislation establishing efficiency targets for heat generation facilities and distribution networks. Nearly 70 percent of the heat supplying Russia's buildings is generated by large and inefficient centralized district heating systems. New legislation should mandate the installation of meters and temperature controls in buildings so that utility bills reflect actual energy use.

d) Engage local and regional government on energy efficiency policies, practices, technologies, financing structures, and demonstration projects which raise community awareness and reinforce existing democracy programs.

e) Develop partnerships with the private sector and Russian government agencies to address natural gas leakages during transportation, the excessive flaring/venting of gases, and re-injection technologies.

f) Provide technical assistance to explore renewable energy sources, including the largely untapped hydropower potential of numerous rivers, geothermal energy, biomass production in agricultural regions, wind on the sea shores, and solar energy applications in the south.

g) Provide technical assistance in development of a domestic cap-and-trade system. The Russian Minister of Energy supports the idea of such a system among power plants to facilitate energy efficiency, and the government may be receptive to cooperation on design and development of a Russian system.

II. Enhance Sustainable Management of Forest Resources and Affected Ecosystems:

¶11. Given Russia's vast forest resources and fragile Arctic habitat, there are significant opportunities to cooperate, exchange knowledge, and improve forest and natural resource management practices in Russia. In response to a Congressional directive, Post has made a modest contribution to the GCC earmark in the past through USAID/Russia's work with the U.S. Forest Service (USFS) to promote sustainable forest management in parts of the Russian Far East and Siberia. USAID also partners with the Russian Federal Forest Agency and the Russian Ministry of Natural Resources to address fire management, illegal logging, and watershed management,

which directly relate to climate change. Large portions of the Russian Far East remain under threat from illegal logging and ineffective resource management.

¶12. Initiatives the USG could pursue in this area include:

a) Scale up limited forest management efforts throughout the Russian Far East in partnership with Russian NGOs and the Russian Forest Agency to improve forest management, increase public awareness about resource management, and reduce illegal logging.

b) Explore options for adaptation and mitigation through sustainable woody biomass utilization. In addition to offering significant social benefits to local communities, woody biomass utilization would result in reduced greenhouse gas emissions and atmospheric concentrations of greenhouse gases through substitution of fossil fuels and provision of "carbon neutral" energy.

c) Provide technical assistance to forestry agencies on carbon sink accounting to ensure that Russia accurately measures forest resources in relation to carbon trading.

d) Develop public-private partnerships to address illegal logging practices in the Russian Far East, Siberia, and along the Russia-China Border.

III. Step up Policy Coordination, Information Exchange, and Capacity-building:

¶13. Sustainable policy and technical cooperation on GCC, as in other issues, is hampered by the stifling top-down nature of Russia's bureaucracy, combined with a tendency to read U.S. designs as taking advantage of perceived Russian weakness. After the 2000 end of the Gore-Chernomyrdin Commission, cooperation in many areas dwindled to a trickle or ceased because of the lack of a political superstructure for high-level blessing and regular progress review. The Russia-U.S. Climate Change Policy Dialogue Working Group, launched in January 2003, has not met since 2005, although certain projects under the Dialogue continue. Progress on GCC issues would benefit greatly from a renewed cooperation structure, such as a bilateral interagency task force on Russian climate change issues.

¶14. Enhanced U.S.-Russia technical cooperation on global climate

change could provide substantial benefits to both countries in areas including technologies and practices to reduce greenhouse gas emissions, improved monitoring and management of international ecosystems and the Arctic, the development of Russia's carbon accounting capacity, and improved coordination in the development of policies. Such cooperation would also more generally strengthen the U.S.-Russia dialogue on climate change in the run-up to and following the United Nations Framework Convention on Climate Change (UNFCCC) COP-15 in Copenhagen in December 2009. Russian Academy of Sciences (RAS) President Yuriy Osipov agreed with Ambassador Beyrle on February 17 that bilateral science cooperation should be increased to a more robust level (ref B), proposing joint work on natural sciences, environment and climate change, energy efficiency and renewable energy, among others. The Russian Energy Ministry announced in January that the Russian government plans to invest in research and infrastructure for water, heat, solar, and wind power, as well as attract private funds to industry that could provide a basis for joint activities with the United States.

¶15. In the areas of policy coordination, information exchange and capacity building, the USG could increase engagement in a number of areas including:

a) Arctic monitoring issues such as ocean observations, especially of trends in ocean temperature and changes in ecosystem structure in a warming ocean; efforts to quantify current values and detect future trends in methane emissions from thawing permafrost, shallow Siberian lakes, and shallow gas hydrate fields in the coastal Arctic Ocean; and enhancing atmospheric observations at the Tiksi

Observatory and expanding this effort to other sites in Russia.

b) Bilateral expert-level discussions on methods of adaptation, including cooperation in design and development of financing mechanisms for adaptation vital to many of Russia's small communities.

c) Addressing shared resource management challenges in the Arctic stemming from climate change, including: threats to the Alaska-Chukotka cross-border polar bear population and other migratory endangered species, coordinated standards of shipping in Arctic seaways, and coordinated fishery regulations.

COMMENT

¶16. Climate is one area where the Russian Federation and the United States often share similar viewpoints and, potentially, objectives. Global progress on climate change cannot happen without Russia's participation; even modest changes in Russian practices can have a significant impact globally. Agencies at post and in Washington are well-positioned to more actively engage Russia, building on past work in the areas of clean energy, forest management, and science cooperation to move Russia towards bilateral partnerships and joint ventures, joint science, public-private collaboration, new technology, and financing. U.S. policy and technical cooperation can bring our positions closer in international GCC negotiations, catalyze new observations and science, and facilitate better use of resources to most effectively address GCC. Post requests guidance from State, USAID, EPA, DOE, NOAA, USFWS and other agencies on how best to capitalize on this opportunity.

BEYRLE